

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 9/9/2014

GAIN Report Number: NL4033

EU-28

Livestock and Products Annual

Russian Ban Mitigates Full Recovery

Approved By:

Mary Ellen Smith

Prepared By:

Bob Flach

Report Highlights: Both EU beef and pork production are forecast to increase in 2015. Beef production is supported by the liberalization of the dairy sector, while improved efficiency in the swine sector and an abundance of feed will reinforce pork production. Both sectors will have to increase sales to alternative markets, as demand on the domestic market is weak and Russia, the largest third country market, has closed. Due to the absence of strong competition on the world market, EU is expected divert the trade flows and expand export sales next year.

Executive Summary

Cattle & Beef – *Dairy sector liberalization will increase beef production.*

The forecasts for the cattle and beef sector are shaped by the liberalization of the dairy market. In Northern Europe, the dairy herd is expanding, which will lead to an increase in the supply of calves and bulls for fattening and slaughter. At the same time the beef cow herd is shrinking due to the absence of government support. Elevated slaughter and low feed prices are expected to increase EU beef production in 2014 and 2015. Beef supply from South America is anticipated to be diverted to Russia, while EU beef previously exported to Russia is forecast to be redirected to alternative markets.

Swine & Pork – *The Russian ban on pork hampers a full recovery.*

The animal welfare regulations imposed in 2013, have further supported a shift of piglet production from the East to the West. While piglet production is anticipated to increase particularly in Northwestern Europe, slaughter is expected to mainly expand in Spain. Total EU pork production is forecast to recover in 2015. The level of production is however lower than the previous two peaks of production in 2007 and 2011. A full recovery of the sector is hampered by weak domestic demand and more importantly the Russian import ban on EU pork. But given the tight supply of pork on the world market, the EU supply is anticipated to find alternative markets. During the first half of 2014, increased sales are reported for nearly all other top 30 destinations.

Policy

-On February 1, 2014, Russia banned pork imports from all 28 Member States as a result of African Swine Fever (ASF) findings on the eastern borders of Lithuania, Latvia and Poland. The EU has been unable to negotiate a resolution with the Russian veterinary services. On July 22, 2014, the EU secured a panel from the WTO Dispute Settlement Body.

-On August 7, 2014, the Russian Government implemented sanctions on a wide range of agricultural and food products from the United States, the EU, Canada, Australia and Norway. The ban includes fresh and frozen beef and pork, poultry meat, prepared meat and sausages.

Cattle

Country	EU-28					
Commodity	Animal Numbers, Cattle (1,000 Head)					
	USDA Official [EU-28]	Posts estimates [EU-28]	USDA Official [EU-28]	Posts estimates [EU-28]	USDA Official [EU-28]	Posts estimates [EU-28]
Market Year	2013		2014		2015	
Total Cattle Beg. Stocks	87,106	87,106	88,000	87,645	0	88,050
Dairy Cows Beg. Stocks	23,207	23,193	23,350	23,482	0	23,650
Beef Cows Beg. Stocks	12,059	12,034	12,000	11,900	0	11,850
Production (Calf Crop)	29,550	29,050	29,600	29,150	0	29,250
Extra EU28 imports	0	0	0	0	0	0
TOTAL SUPPLY	116,656	116,156	117,600	116,795	0	117,300
Extra EU28 exports	514	505	500	450	0	460
Cow Slaughter	11,200	10,837	11,250	10,750	0	10,690
Calf Slaughter	6,700	6,619	6,800	6,645	0	6,665
Total Slaughter	26,500	26,195	26,850	26,400	0	26,500
Loss	1,642	1,811	1,650	1,895	0	1,890
Ending Inventories	88,000	87,645	88,600	88,050	0	88,450
TOTAL DISTRIBUTION	116,656	116,156	117,600	116,795	0	117,300

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Liberalization is supporting an expansion of the dairy herd.

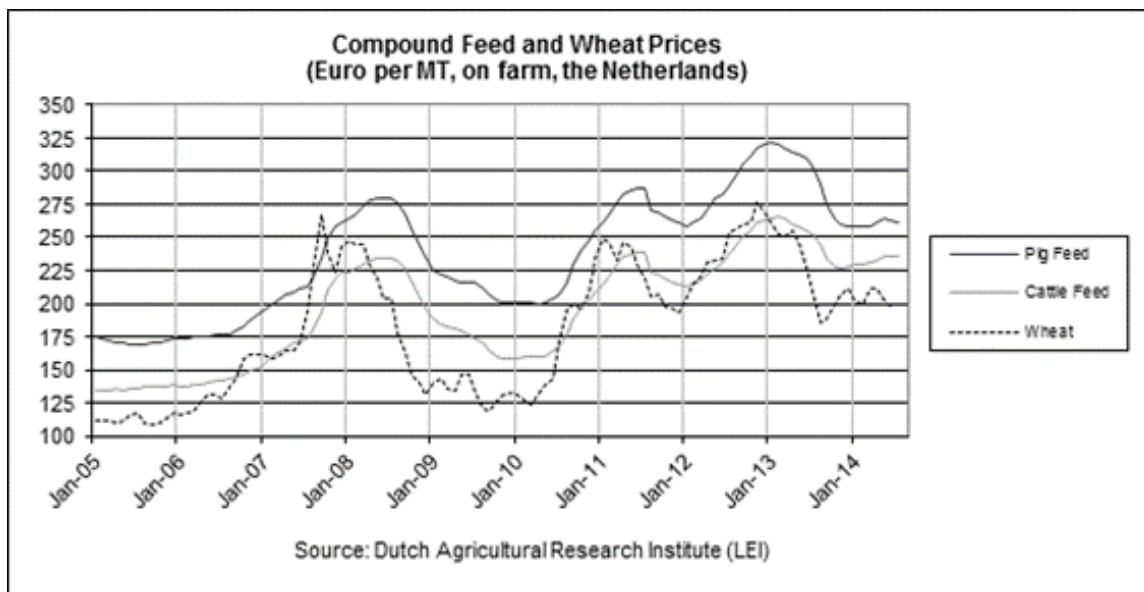
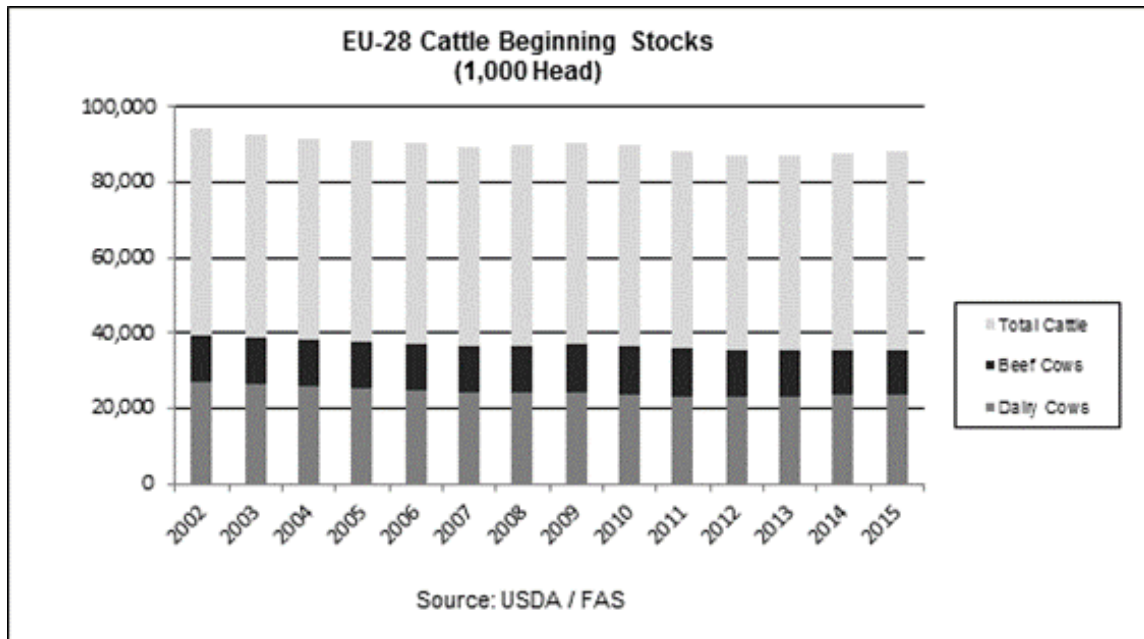
Through 2014 and 2015, the trend of a shrinking beef cow herd and expanding dairy cow herd is forecast to persist (see graph below). The most significant cuts in the beef cow herd are anticipated in Ireland and the United Kingdom. The expansion of the dairy herd is supported by low feed prices and firm milk prices (see graphs below). However, the principal factor is the abolishment of the milk quotas in 2015 (see for more information the FAS Dairy Annual). Expansion of the dairy herd is expected to take mainly place in Northern Europe: Germany, the Benelux and Nordic Countries, Poland, Ireland and the United Kingdom. In most other EU Member States, the dairy herd is shrinking mainly due to the phasing out of government support programs and increased competition on the EU domestic market. In the New Member States (NMS), the bovine sector is forecast to continue its restructuring. Commercial farms continue to expand and dominate on the market versus smaller farms which will be further depressed by the expiring milk quotas.

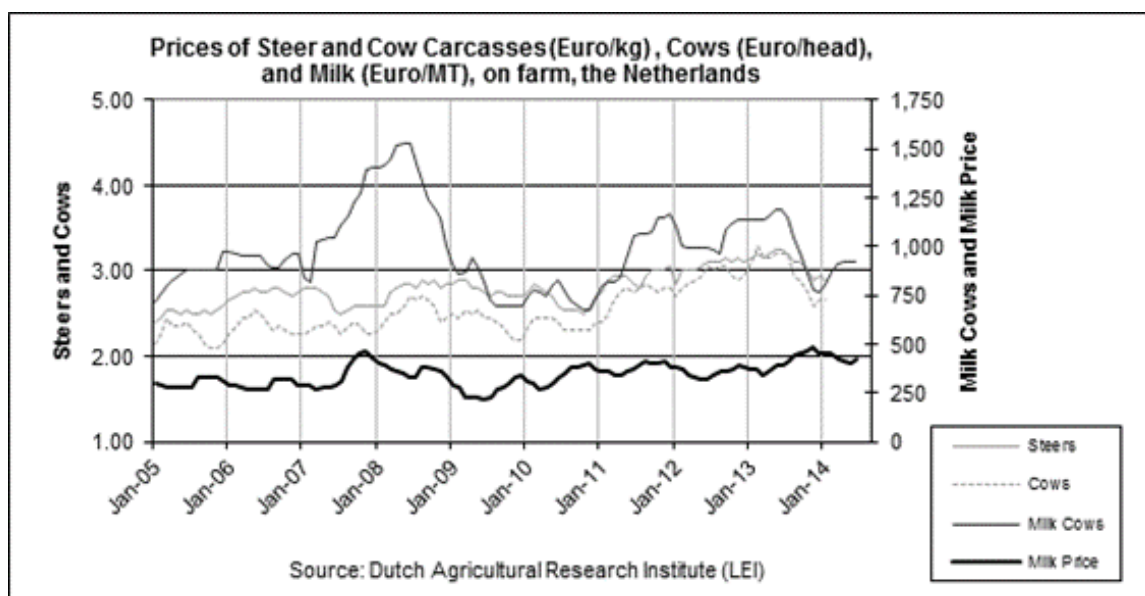
Expansion of the dairy cow herd will increase slaughter numbers.

In 2014, cattle exports to Northern Africa and the Middle East are stagnating and are not expected to balance the decrease in exports to Turkey. Live cattle exports to Turkey continue to decline since the surge of exports during 2011 and 2012. Belarus could possibly be a new market for EU live cattle as it reportedly opened its borders in August. By this measure, Belarus will be able to slaughter these animals for the Russian market. In 2015, an increase in the availability of animals is forecast to slightly increase exports to third country destinations. The expansion of the dairy herd and correlated increased calf crop will have a more pronounced effect on the domestic market, in particular slaughter.

Extrapolating from Eurostat numbers, slaughter in official slaughterhouses, not including backyard

slaughter, was reduced by about 0.7 percent during the first half of this year. However, due to the overall increase of the number of cows, the supply of animals, calves and young bulls, for fattening will increase. Based on this increased availability of animals, EU slaughter is estimated to recover during the second half of this year. Backyard slaughter, about 0.95 million animals in 2013, is expected to gradually fall to about 3 percent of total slaughter in 2015.





Beef

Country	EU-28					
Commodity	Meat, Beef and Veal (1,000 Head)(1,000MT CW)					
	USDA Official [EU-28]	Posts estimates [EU-28]	USDA Official [EU-28]	Posts estimates [EU-28]	USDA Official [EU-28]	Posts estimates [EU-28]
	2013		2014		2015	
Slaughter (Reference)	26,500	26,195	26,850	26,400	0	26,500
Beginning Stocks	0	0	0	0	0	0
Production	7,470	7,384	7,580	7,475	0	7,490
Extra EU28 imports	376	376	380	360	0	355
TOTAL SUPPLY	7,846	7,760	7,960	7,835	0	7,845
Extra EU28 Exports	244	244	240	255	0	260
TOTAL Domestic Use	7,602	7,516	7,720	7,580	0	7,585
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	7,846	7,760	7,960	7,835	0	7,845

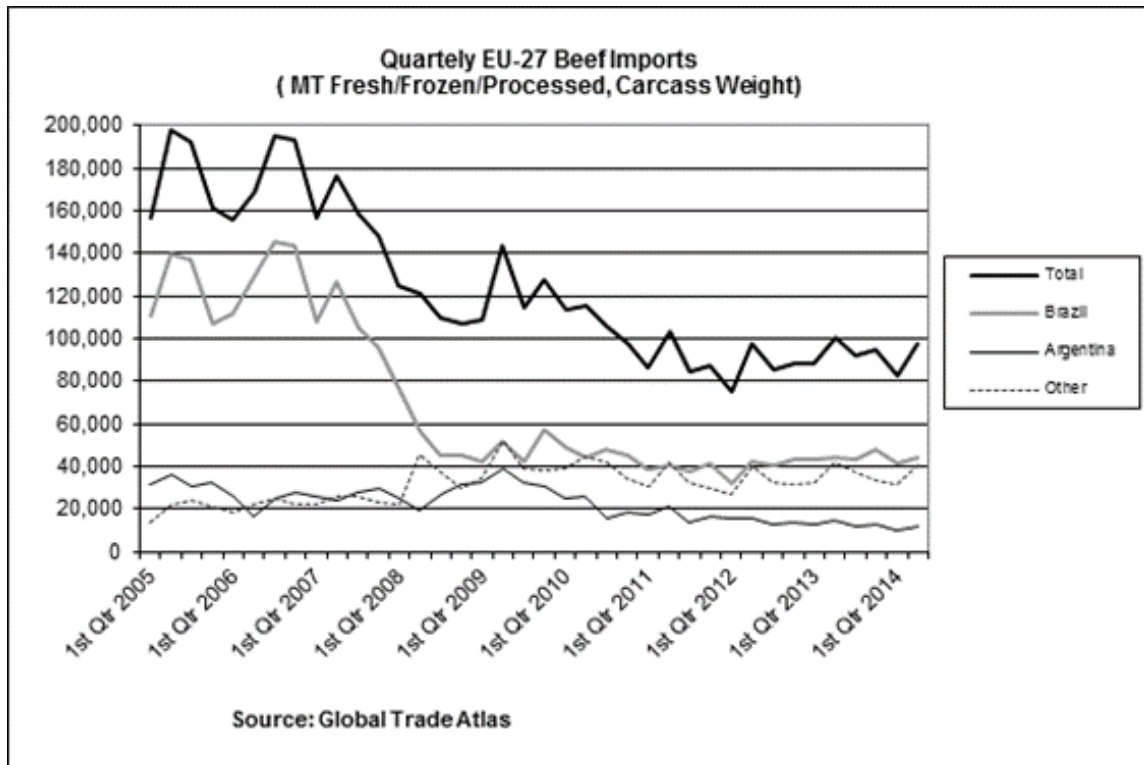
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Expansion of the dairy herd will reinforce EU beef production.

In 2014 and 2015, EU beef production is expected to increase based on the sustained expansion of the dairy cow herd. As stated in the Cattle section of this report this trend is forecast to take place in Northern Europe. During Marketing Year 2014/2015, beef production is also supported by elevated slaughter weights due to the good availability of fodders and low prices of compound feed.

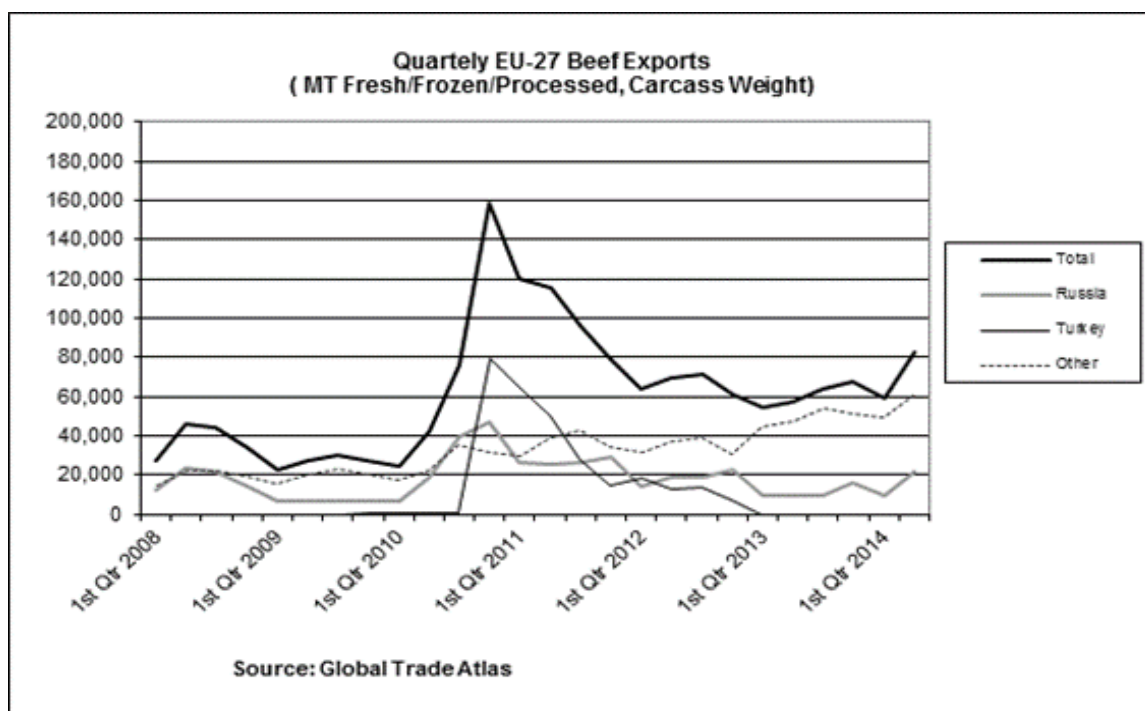
Imports of lower beef qualities are expected to stagnate.

Based on the increased availability, EU beef consumption is expected to slightly recover (see graph below). This increase will mainly consist of the lower quality cuts. As a consequence of the tight supply on the world market, and increased domestic availability, imports are forecast to decline. During the first half of this year, imports from the top three suppliers to the EU, Brazil, Uruguay and Argentina declined, while imports into the High Quality Beef quota increased from Australia and the United States. Consumption of beef in the highest quality segment is constrained by the limited availability, not demand. This indicates that some further growth is possible of beef imports under this zero duty quota (see Policy chapter).



The EU is forecast to easily find an alternative for the Russian market.

On August 7, Russia banned fresh and frozen beef as part of sanctions on a wide range of agricultural and food products from the United States, EU, Canada, Australia and Norway. In 2013, Russia imported about 46,000 MT (CW) of beef from the EU, and during the first half of this year about 31,000 MT (CW). Based on these figures, the EU will lose about 15,000 MT (CW) of trade compared to last year. Exports to other third countries destinations, mainly to the Balkans and Hong Kong, rose by nearly 20,000 MT (CW) during the first half of this year. This indicates that the EU will be able to redirect EU beef production previously exported to Russia to alternative markets. This assumption is further supported by lower competition on the world market as South America is expected to expand its exports to Russia.



Swine

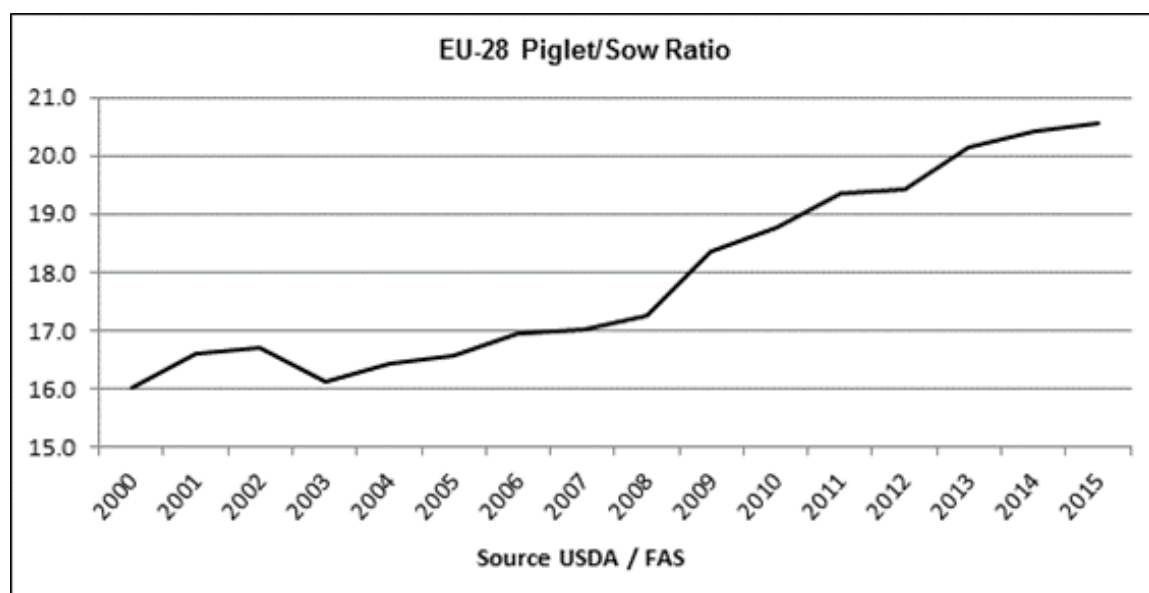
Country	EU-28					
Commodity	Animal Numbers, Swine (1,000 Head)					
	USDA official [EU-28]	Posts estimates [EU-28]	USDA official [EU-28]	Posts estimates [EU-28]	USDA official [EU-28]	Posts estimates [EU-28]
Market Year Begin	2013		2014		2015	
TOTAL Beginning Stocks	146,982	147,080	145,400	146,129	0	146,500
Sow Beginning Stocks	12,709	12,737	12,550	12,529	0	12,475
Production (Pig Crop)	256,700	256,750	257,150	256,000	0	256,600
Extra EU28 imports	1	1	0	1	0	1
TOTAL SUPPLY	403,683	403,831	402,550	402,130	0	403,101
Extra EU28 exports	818	572	550	450	0	475
Sow Slaughter	4,460	4,081	4,440	4,050	0	4,045
Total Slaughter	251,100	250,735	250,800	249,000	0	249,500
Loss	6,365	6,395	6,200	6,180	0	6,126
Ending Inventories	145,400	146,129	145,000	146,500	0	147,000
TOTAL DISTRIBUTION	403,683	403,831	402,550	402,130	0	403,101

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Shift of production from the East to the West continues.

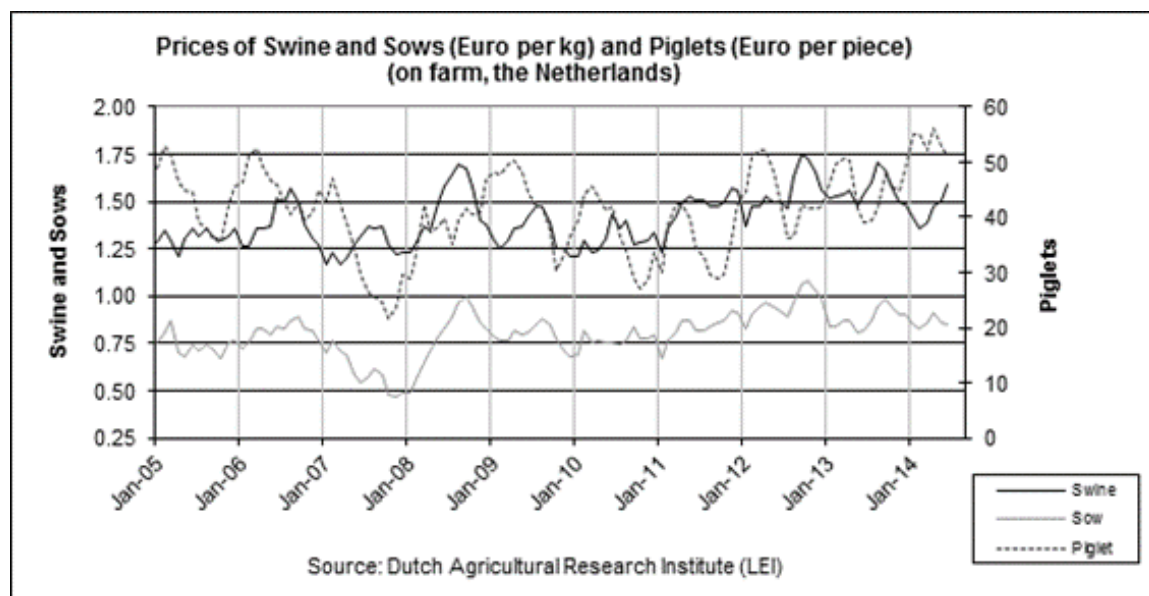
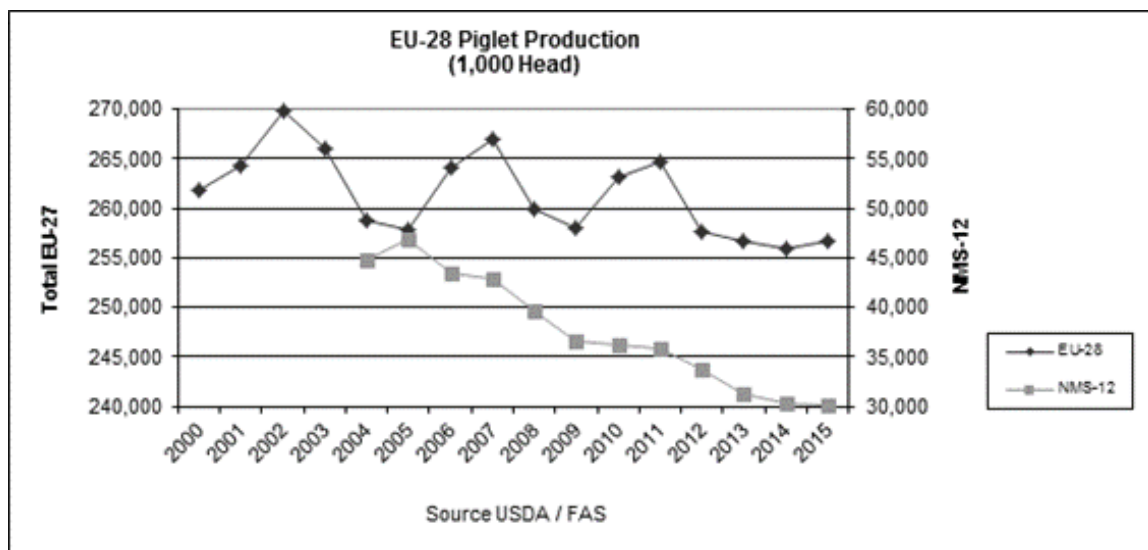
After enforcement of the animal welfare regulations in January 2013, the EU sow numbers are expected to continue to decline in almost all EU Member States (MS). The strict requirements caused a shift of

production from the East to the West, and increased the overall efficiency of the sector. Piglet production continues to decline in the New Member States (NMS), particularly in Poland with a reduction of 0.8 million piglets over two years. In Poland the crisis in the swine sector persists due to the inefficient structure of the industry, the continuing strong competition from mainly Danish suppliers, and last but not least the outbreak of African Swine Fever (ASF) in the country. It should be noted that the forecasts for 2014 and 2015 are based on the current epizootic situation within the EU. If the ASF outbreak in Poland, Lithuania and Latvia will spread further it will affect slaughter, and in particular exports to third country destinations. Besides in Poland, piglet production is also anticipated to be significantly cut in Italy (0.6 million head during 2014 and 2015) and France (0.5 million head). Based on the current sow stock and increased efficiency, during 2014 and 2015, expansion of in total about 2 million piglets, is expected in Denmark, Germany, the United Kingdom, Spain and the Benelux countries.



The Russian ban is hampering a full recovery.

Carcass prices are at a relatively high level, well above the five-year average and feed prices are at the lowest level since 2010. A number of negative factors are, however, hanging over the market. EU piglet production is forecast to increase in 2015, but this is a year later than reported in the Annual. This adjustment is a result of the Russian ban on EU pork imposed in February 2014, which is lasting longer than anticipated (see Policy section), and reinforced by the Russian sanctions imposed on August 7. As since 2010, between 400,000 and 500,000 MT (CW) of pork were shipped to Russia, these bans are hampering a full recovery of the sector. Lower exports of live swine to Russia and the Ukraine are partly offset by increased exports of slaughter hogs from Croatia and Hungary to Serbia since March of this year. Most probably these hogs are slaughtered in Serbia for the Russian market.



Pork

Country	EU-28					
Commodity	Pigmeat (1,000 Head)(1,000 MT CW)					
	USDA Official [EU-28]	Posts estimates [EU-28]	USDA Official [EU-28]	Posts estimates [EU-28]	USDA Official [EU-28]	Posts estimates [EU-28]
Market Year Begin	2013		2014		2015	
Slaughter (Reference)	251,100	250,735	250,800	249,000	0	249,500
Beginning Stocks	0	0	0	0	0	0
Production	22,390	22,342	22,300	22,300	0	22,365
Extra EU28 imports	15	15	15	12	0	10
TOTAL SUPPLY	22,405	22,357	22,315	22,312	0	22,375
Extra EU28 exports	2,232	2,232	2,000	2,150	0	2,200
TOTAL Domestic Use	20,173	20,125	20,315	20,162	0	20,175
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	22,405	22,357	22,315	22,312	0	22,375

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

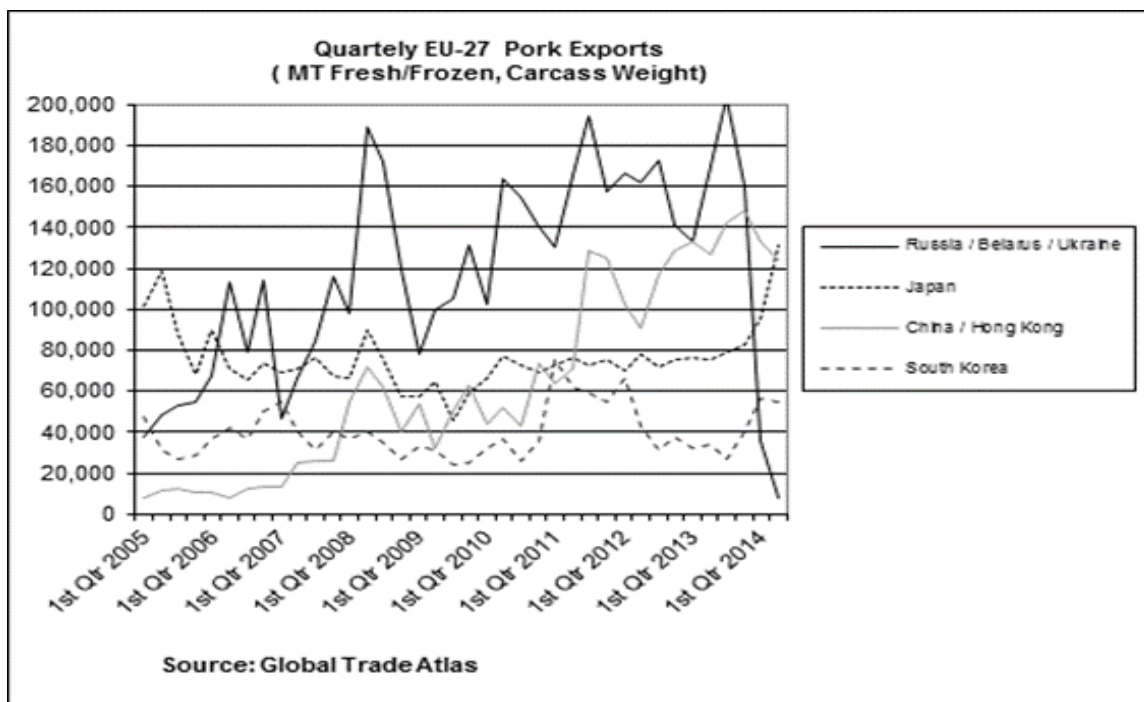
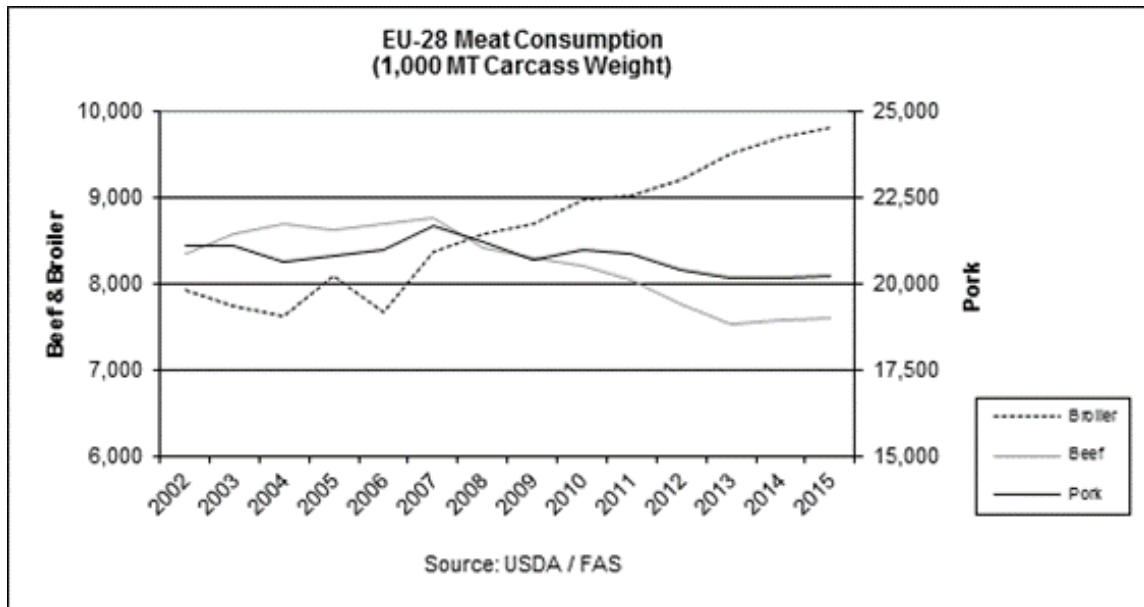
Pork meat is losing popularity on the domestic market.

This year, the lower slaughter is nearly balanced by higher slaughter weights. Based on the abundance of feed, hogs are expected to be fattened to a higher weight. Next year, pork production is forecast to increase based on higher slaughter numbers. Production is anticipated to mainly increase in Spain and the United Kingdom. Spain is expected to be the main driver for growth in 2014 and 2015. Supported by lower prices, a part of the Spanish production will be sold domestically in particular in Central Europe where local production is structurally on the decline. As stated in the Swine section, efficiency of the EU swine sector has improved but full use of the new potential is constrained by lack of domestic demand. Broiler meat is increasingly preferred by consumers based on the perceived health benefits above the generally more fatty pork products. Poultry is also more easily processed in snacks and prepared meals.

EU pork is finding its way to new markets.

While the domestic market for pork is stagnating, the most important export market has closed. Because of outbreaks of African Swine Fever (ASF) in Poland, Lithuania and Latvia, Russia has banned EU fresh and frozen pork since February 1 and Belarus since February 20 this year. The outbreaks of ASF also negatively affected exports to the Ukraine. In January 2014, the EU exported about 27,000 MT (CW) of fresh and frozen pork to this region and will be able to continue to ship monthly about 2,000 MT (CW) of pork products. As the EU exported in total 667,000 MT (CW) to this region in 2013, an alternative market will have to be found for another 616,000 MT (CW) of pork. At the same time exports to China and Hong Kong are stagnating. However, during the first half of 2014, increased sales are reported for all other top 30 destinations except South Africa. Sales rose in particular to Japan, South Korea, Philippines, the United States and Taiwan. Sales to Japan, South Korea and the United States reportedly benefitted from the outbreaks of Porcine Epidemic Diarrhea Virus (PEDV) in these countries. The overall increase is, however insufficient to counterbalance the lower sales to Russia, the Belarus and the Ukraine. Export sales to all other destinations rose by 210,000 MT (CW) during the

first half year. During the second half of this year, the sector is anticipated to further expand sales to these markets and redirect the remainder to private storage and the domestic market. With the current competitiveness of the sector, the EU is expected to further expanded export sales to alternative markets in 2015. But, as stated in the Swine section, if ASF will spread further from the East to the West it will significantly affect exports to third country destinations.



Policy

Russian ban on EU pork imports as a result of ASF outbreaks

On February 1, 2014, Russia banned pork imports from all 28 Member States as a result of African Swine Fever (ASF) findings on the eastern borders of Lithuania, Latvia and Poland. As a result of allegations that pork products were mingled in EU beef exports to Russia, Russia extended the ban to low quality EU beef imports. Russia also banned all pork imports transshipped through EU Member States. In support of the affected pig farmers in Poland, the European Commission authorized a support measure for 20,000 MT, in which private storage was set up for pork production from the affected area. The EU has been unable to find a negotiated solution with Russia for regionalization, which would have allowed exports from unaffected areas to resume. On June 30, the EU requested the establishment of a panel from the WTO Dispute Settlement Body (DSB). Russia was able to block the EU's request under WTO rules. However, on July 22, 2014, the EU finally secured a panel from the DSB.

Russian extensive ban on agricultural and food products

On August 7, 2014, the Russian Government implemented sanctions on a wide range of agricultural and food products from the United States, the EU, Canada, Australia and Norway. Reportedly the ban will last for one year. The ban includes fresh beef (HS0201), frozen beef (HS0202), pork (HS0203), poultry meat (HS0207), prepared meat (HS0210) and sausages (HS160100). Below is a table with the trade volumes for beef, pork and poultry in 2013.

	EU Exporst to Russia (MT)	Share of EU Exports	Share of Russian Imports
HS0201	13,729	17.8	34.1
HS0202	18,654	30.2	3.4
HS0203	369,916	23.0	60.9
HS0207	73,706	5.8	16.2
HS0210	3,747	9.3	97.2
HS160100	13,659	10.4	75.7
Total Beef (CW)	45,807	18.8	5.5
Total Pork (CW)	503,829	22.6	61.9
Total Poultry	70,856	5.6	15.7

Update on U.S. Beef Exports into the HQB for Quota Year 2013-2014

The EU High Quality Beef (HQB) quota is a result of the 2009 Memorandum of Understanding on the WTO Hormone Dispute between the EU and the United States. The EU Customs database TARIC indicates that 41,356 MT of beef was imported into the HQB quota, compared to 33,572 MT in the previous year. This leaves 6,865 MT of the quota unfilled. Australia and Uruguay accounted for the majority of this year's quota fill. In August, the EC reportedly allowed Argentina to join the group of countries which are eligible to export under the quota.

DISCLAIMER

The numbers in the PSDs in this report are not official USDA numbers, but they result from a collaborative effort by FAS EU offices to consolidate PSDs from all 28 EU member states.

This report is the result of active collaboration with the following EU FAS colleagues in the following member states:

Xavier Audran from FAS Paris covering France
Ornella Bettini from FAS Rome covering Italy and Greece
Mila Boshnakova from FAS Sofia covering Bulgaria
Monica Dobrescu from FAS Bucharest covering Romania
Bob Flach from FAS The Hague covering the Benelux and Nordic countries
Steve Knight from FAS London covering the United Kingdom and Ireland
Roswitha Krautgartner from FAS Vienna covering Austria and Slovenia
Petra Hrdlickova from FAS Prague covering the Czech Republic and Slovak Republic
Andreja Misir from FAS Zagreb covering Croatia
Yvan Polet from FAS Brussels / U.S. Mission to the EU
Leif Rehder from FAS Berlin covering Germany
Piotr Rucinski from FAS Warsaw covering Poland, Estonia, Latvia and Lithuania
Carmen Valverde from FAS Madrid covering Portugal and Spain

NOTE

In this report the following HS codes and conversion factors are used:

	HS codes	Conversion factors
Beef	0201, 0202	PW X 1.40 = CW
	021020, 160250	PW X 1.79 = CW
Pork	0203, 021011, 021012, 021019, 160241, 160242, 160249	PW X 1.30 = CW

PW = Product Weight CW = Carcass Weight

ABBREVIATIONS

EC: European Commission
EU: All twenty-eight Member States of the European Union.
MS: An EU Member State
NMS: The thirteen new Member States which joined the EU in May 2004, January 2007 and July 2012
Benelux countries: Belgium, the Netherlands and Luxembourg
Nordic countries: Denmark, Sweden and Finland

Related reports from FAS Post in the European Union:

Country	Title	Date
Germany	Sausage Cartel lifted in Germany	08/25/14
Germany	Broad Initiative to increase Animal Welfare	08/19/14
Germany	Russian ban hits German food preparations industry	08/19/14
Austria	Russian Import Bans to Hit Austrian Agricultural Exports	08/18/14
Latvia	EMP Increase of Exports of US Livestock Genetics to Eastern Europe	07/03/14
Romania	US Experience in Bovine genetics shared with Romanian farmers	06/13/14
EU-28	Livestock and Products Semi Annual	02/27/14
Romania	Romanian dairy sector facing new challenges	12/16/13
Hungary	Tax Cuts to Fight Fraud in Pork Market	11/19/13
Belgium	Promoting U.S. beef through social media in Belgium	10/18/13
EU-28	Livestock and Products Annual	09/11/13
Romania	Bovine Genetics suppliers regain direct access to Romanian farms	08/16/13
Romania	Foreign Bovine Genetics Access to the Romanian Market Threaten	06/10/13
Poland	General Guidance on Exporting U.S. High Quality Beef to the EU	06/07/13
Netherlands	Dutch Government Recalls 50 Million Kg of Beef	04/23/13
EU-27	Livestock and Products Semi Annual	03/01/13
Poland	Poland's Swine Sector Under Stress	02/13/13
EU-27	Two Breakthroughs in U.S. exports to Europe	02/11/13
Poland	Poland Bans Ritual Slaughter of Animals	01/10/13

The GAIN Reports can be downloaded from the following FAS website:

<http://gain.fas.usda.gov/Pages/Default.aspx>

-For additional livestock market related information, please contact:

Bob Flach (FAS The Hague)

Phone: ++31 70 310 2303

E-mail: bob.flach@fas.usda.gov

-For additional livestock policy related information, please contact:

Yvan Polet (FAS Brussels U.S. Mission to the EU)

Phone: ++32 2 811 4095

E-mail: yvan.polet@fas.usda.gov